

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Middlesex
Contributory Retirement System
For the Three Year Period
January 1, 1998 - December 31, 2000
PERAC 00: 08-009-14**

TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations	2
Statement Of Ledger Assets And Liabilities	22
Statement Of Changes In Fund Balances	23
Statement Of Income	24
Statement Of Disbursements.....	25
Investment Income.....	26
Statement Of Allocation Of Investments Owned	27
Supplementary Investment Regulations	28
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	30
Note 2 - Significant Accounting Policies.....	31
Note 3 - Supplementary Membership Regulations.....	32
Note 4 - Administration Of The System	34
Note 5 - Actuarial Valuation And Assumptions	35
Note 6 - Membership Exhibit.....	36

March 9, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Middlesex** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **1998** to December 31, **2000**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Robert Madison, Harry Chadwick, David Pickering and James Ryan who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connerton
Executive Director

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

1. Audits Performed by Certified Public Accounting Firms:

- a. During this tri-annual audit period, a Certified Public Accounting firm billed the Middlesex Retirement System for auditing fees and consulting services. PERAC auditors reviewed the vendor selection and determined that the selection was not made through an RFP procurement process.
- b. The Board's Certified Public Accountants performed an examination of the Middlesex Retirement System. The independent auditor's report referenced that the audit was completed in accordance with generally accepted auditing standards and in compliance with the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration Commission (PERAC) Rules and Regulations 840 CMR 25.0. PERAC auditors attempted to review the audit report and work papers to determine whether any additional audit work should be performed by the PERAC audit staff in order to insure that the audit was completed in conformance with the requirements of M.G.L. c. 32. After permission was granted, and after three attempts to contact the vendor, the Certified Public Accounting firm never discussed particulars of their Middlesex Retirement System audit. Furthermore, they did not disclose the contents of their Middlesex Retirement System work papers during our audit. The principal of the Certified Public Accounting firm did review a draft of our findings and recommendations at the conclusion of the audit.

Recommendation:

- a. When a retirement system elects to utilize the services of an accounting firm, the retirement system must make their selection through a procurement process. The retirement system must issue an RFP and advertise to obtain services to perform a financial and managerial audit of the retirement system as outlined in PERAC's December 6, 1999 memo #47/1999 ("Guidance on Retirement System Audits Performed by Certified Public Accounting Firms"). Separate contracts for financial audits and consulting activities are required. The recommended engagement letter must include a rate per hour in the RFP, and bills or invoices must include a description of what was accomplished as well as hours spent on each task. It is recognized that a three-year contract was signed on January 8, 1999 predating PERAC's December 6, 1999 advisory memo #47/1999.
- b. The Independent Auditor's Report referenced that they performed an audit in accordance with the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration standards. This could not be verified because the Board's Certified Public Accountants did not meet with the PERAC auditors to verify compliance with G.L. c. 32 and 840 CMR requirements. Further, when providing consulting services, the Certified Public Accounting firm should not put themselves in the position of auditing their own work. PERAC does recognize that the newly enacted Sarbanes-Oxley Act of 2002 (federal legislation that affects how public organizations and accounting firms deal with corporate governance, financial disclosure, and the practice of public accounting) was adopted after this three-year audit ending December 31, 2000.

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

Board Response:

- a. While an RFP procurement process is specifically required by regulation for the Board's election of vendors who provide investment related services, contracts for non-investment related retirement board services are statutorily exempted from the provisions of G.L. c. 30B, the Uniform Procurement Act. As noted, PERAC issued a technical advisory on December 6, 1999 that "the retirement system must make their selection [of an accounting firm] through a procurement process." However, the Board's Agreement with the Accounting Firm to provide accounting services for the period 1998 through 2000 was executed on January 8, 1999, substantially predating PERAC's advisory. Despite the apparent statutory exemption, the Board nevertheless agrees that, where practicable, a competitive process is ordinarily desirable in the retention of vendors.
- b. The Board's Accounting Firm was undergoing a period of internal structural changes at the time of PERAC's examination which impacted the accountant's ability to meet timely with PERAC auditors. The Accounting Firm has advised the Board of subsequent discussions and agreement with PERAC's staff that all working papers will be made available to PERAC before any future reports are issued, thereby ensuring that audits will be conducted in accordance with applicable PERAC regulations. The Board's relationship with its Accounting Firm and Independent Auditor was not impaired during this period, and the Board will continue to maintain that independent relationship as it relates to the new Sarbanes-Oxley Act of 2002.

2. Conference Expenses:

A review of conference expenses approved by the Board indicated that the Board reimbursed the Board's Attorney for \$18,863.89 for travel both in and out of the Commonwealth over the three-year audit period. Reimbursed conferences included: Massachusetts Association of Contributory Retirement Systems (MACRS) Conferences; Public Funds Academy; National Association of Public Pension Attorneys; IRR Asset Allocation Congress; Investment Management Institute Public Funds Academy; Opal Financial Asset Allocation Summit.

Recommendation:

Travel, conference, and lodging expense reimbursements to the Board's Attorney or any third party or vendor is generally not an appropriate use of retirement funds. The Middlesex Retirement System should review its policy of reimbursing the Board's Attorney for travel, conferences, and lodging and specifically approve, where appropriate, each occurrence by a Board vote and record the vote in the Board Minutes.

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

Board Response:

In 1993, the Middlesex Retirement Board was one of the first retirement boards in the Commonwealth to adopt an Educational and Travel Policy, predating by several years PERAC's March 7, 2002 Travel Guidelines, and the June 6, 2003 Travel Regulations, set forth at 840 CMR 2.00 et seq. The Board's Travel Policy was adopted largely at the urging of the Board's Attorney. As does PERAC, the Board strongly supports continuing education and training for its members and staff. The Board considers the Board's Attorney to be an integral part of the operation of the Middlesex Retirement System, and has required his attendance at and participation in continuing educational opportunities. The Board's Attorney, while representing the Board, has attended and delivered presentations at national forums on various issues ranging from ethics, disability management and investment management contracts, all to the benefit of the Middlesex Retirement System and its members and beneficiaries. Reimbursement of expenses for Board requested attendance at Board authorized educational conferences was consistent with the Board's Travel and Education Policy in effect for the period under review. Although this policy was longstanding, the Board was not made aware, following previous PERAC examinations, that the documented expense reimbursements to the Board's Attorney would not be considered by PERAC, as a general matter, to be an appropriate use of Board funds. Nevertheless, the Board will review this policy to determine that all such expenses, where appropriate, have been and are specifically approved by Board votes duly recorded in the Board Minutes.

3. Insurance Benefits:

A review of expenses approved by the Board indicates that the System provides health insurance coverage for the Board's Attorney.

Recommendation:

Vendors cannot be part of the Middlesex Retirement System's health plan. The Board must notify their Attorney that he is not eligible to be a member of the Massachusetts Group Insurance health plan.

Board Response:

For well over a decade, the Board has included the Board's Attorney in the applicable employee group health insurance program as part of the Attorney's overall compensation, and in lieu of proposed fee increases, which has resulted in a net savings to the system. Based upon the Board's understanding of the provisions of G.L. c. 32B, and the definition of "employee" contained therein, the Board's Attorney's participation in the employee group health insurance plans, which had been accepted by the appropriate plan administrators, was determined by the Board to be appropriate. G.L. c. 34B, s. 19(I) now provides health plan coverage for regional

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

retirement system Board members and employees through the Group Insurance Commission. Although this practice has been longstanding, and subject to previous PERAC reviews, the Board was not made aware, following previous PERAC examinations, that the inclusion of the Board's Attorney in the employee group health insurance plan was not considered by PERAC to be appropriate, and the Board had knowledge that this practice was implemented in at least one other regional retirement system. Although the Board respectfully disagrees with this finding, where the Board's Attorney's status has changed, the provisions of G.L. c. 34B, s. 19(I) are now applicable.

4. NAPPA Dues:

The Middlesex Retirement System pays the Board Attorney's annual membership dues to the National Association of Public Pension Attorneys (NAPPA).

Recommendation:

Paying membership dues to vendor associations is not a common use of retirement funds. The Board's Attorney also represents several Massachusetts retirement systems. Legal association costs such as NAPPA dues should be included in the attorney's overhead billing rate and passed on to all retirement systems using the services of the attorney. The Middlesex Retirement System should review its policy of reimbursing the Board's Attorney for annual membership dues to NAPPA, and specifically approve the membership by a Board vote in accordance with the regulations of the Commission.

Board Response:

The Board had initiated and approved the Board's Attorney's membership in the National Association of Public Pension Attorneys (NAPPA) in 1995, and reimburses his annual membership dues. The Board's Attorney is officially registered with NAPPA as "Legal Counsel for the Middlesex Retirement Board." The Board's Attorney's participation in NAPPA has consistently proven to be of great benefit to the Board and the members and beneficiaries of the system, and the Board has used this resource on many occasions. The Board has no particular concern if that benefit extends to overall betterment of the public employee pension system. Nevertheless, the Board will review this matter in conjunction with applicable PERAC regulations.

5. Travel & Conference Expenses:

In our review of travel and administrative expenses charged to the System, we noted the following areas of concern:

- a. Specific business travel plans and educational training seminars were not pre-authorized or documented in the minutes of Board meetings.
- b. The American Express credit card was being used by the Board to directly charge personal expenses to the Middlesex Retirement System. PERAC auditors observed personal travel to locations such as Asia, Myrtle Beach, Las Vegas, and Florida. Furthermore, personal

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

expenditures were noted for liquor, groceries, limousines, and gifts. Although these charges were reimbursed, some were repaid three to eight months after the expenses were incurred. The personal use of the American Express card is a direct violation of section 3 of the Travel Reimbursement Policy approved by the Middlesex Retirement Board effective 9/1/98.

- c. Travel and training expenses are not consistently documented on a formal travel voucher expense reporting form. For example, the business expenses for a March 2000 Asset Allocation Conference, with approximately \$2,300 of travel and seminar expenses, were hand written on note pad paper. Food and beverage expenses for an office party at the Chairman's home was also written on note pad paper, with no explanation of the business purpose of the party.
- d. Expenses charged to the American Express Card often had no detail, such as a hotel folio, supporting the charge. For example, the annual Middlesex Retirement System Spring Conferences charged to the American Express Card have no details supporting the charges, which ranged from \$18,000 to \$22,000.
- e. Income from fees for those who attend the annual Middlesex Retirement Conferences is not matched against expenses. The auditors were not provided with income details, and therefore, could not verify the income or expenses from these conferences.
- f. The Investment Managers/Advisors sponsoring various conferences, at times paid for hotel expenses of Board members.

Recommendations:

- a. The Middlesex Retirement System should adopt a detailed Travel Supplemental Regulation which adheres to the guidelines established by PERAC on March 7, 2002 with Memorandum #15/2002.
- b. The Board has a fiduciary duty to act in the best interest of the System's 67 member units, and must discontinue charging personal expenses to the System on the American Express Credit Card or in any other form.
- c/d. All travel and seminar expenses should be authorized in advance of the trip and specifically documented in the Board minutes. Furthermore, all associated expenses for the trip should be documented in their entirety on a Travel Expense Reporting form. The documentation should include original itemized receipts, in addition to American Express or other credit card details.
- e. The Middlesex Retirement System must maintain a detailed accounting of all income and expenses derived from the Middlesex Retirement Conferences.
- f. It was noted that some Investment Managers/Advisors paid for hotel expenses of Board members during conferences. In order to prevent a conflict of interest or the appearance of conflict, Board Members are prohibited from directly or indirectly accepting payments for hotel or travel costs by Investment Managers/Advisors. The Board should comply with CMR 840 2.00

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

Board Response:

PERAC performed a special audit devoted to certain Travel and Conference Expenses of the Board for the period January 1, 1995 through December 31, 2000, which included the period under review. With the exception of three (3) findings over the six (6) year period, which findings were adequately explained and documented by the Board, PERAC concluded on March 10, 2003 that the financial records and management functions with respect to these Travel and Conference Expenses were being performed in conformity with PERAC standards. It is confounding that within six (6) months of this conclusion, PERAC has noted "areas of concern" relating to these records for the same period, which were previously reviewed and found to be "in conformity" with PERAC's standards. Nevertheless, the Board will seek to address and to assuage PERAC's concerns.

- a. The Board respectfully disagrees with PERAC's finding that attendance at educational training seminars was not pre-authorized by the Board. Notwithstanding that PERAC's Travel Regulations were not in effect during the period under review, attendance at education conferences was reviewed and approved at Board meetings, pursuant to the Board's Educational and Travel Policy in effect during the period. Following the promulgation of formal Travel Regulations at 840 CMR 2.00, *et seq.*, which became effective June 6, 2003, the Board subsequently adopted and PERAC had approved Supplemental Regulations submitted pursuant to PERAC Memo #22/2003, which was issued on July 9, 2003. The Board will continue to ensure that its travel and education policies adhere to the Travel Regulations, and that votes regarding same are entered into the Board minutes.
- b. The Board is constantly aware of its fiduciary duty to act at all times in the best interests of the members and beneficiaries of the system. On occasion, and as a matter of convenience, a Board Member would include a spouse or other traveling companion when making airline or other travel reservations. Prior to the formal promulgation of Travel Regulations on June 6, 2003, this had been a common practice of many retirement boards throughout the Commonwealth and has resulted in a common PERAC audit finding. Other expenditures specifically noted by PERAC were, in substantial part, associated with the Board's Annual Spring Educational Conference, and were not personal expenses. See further response at 5d., below. As cited by PERAC, one hundred (100%) percent of all personal expenses were reimbursed to the system as soon as practicable, as was required by the Board's internal control procedures. The Board's fiduciary duty to its members and beneficiaries was never compromised. All cited matters were questioned and reviewed by PERAC auditors and evidence of prompt reimbursement was unquestioned. In addition, these matters were subject to review in PERAC's earlier audit of the Board's Travel and Conference Expenses, cited above. The

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

Board members have been formally reminded that even where prompt reimbursement to the system of personal expenses charged to the Board was made, that such practice is, nevertheless, now deemed to be an inappropriate use of the Board credit card pursuant to Travel Regulations 840 CMR 2.00, et seq.

- c. Effective June 6, 2003, pursuant to the Travel Regulations, the use of formal travel voucher forms are now required by the Board. During the period under review, however, the Board's Education and Travel Policy did not require specific, formal and uniform travel voucher forms. Nevertheless, the Board's internal controls required that expenses be thoroughly documented. With reference to advance approval of travel plans for the period under review, the Board did discuss and pre-authorize travel and attendance at educational events. Effective June 6, 2003, pursuant to the Travel Regulations, such authorization will be formally entered into the Board minutes. The referenced event at the Chairman's home took place during the Spring Conference of the Massachusetts Association of Contributory Retirement Systems in Hyannis and consisted of a food and beverage reception for Board members and staff who were attending at the conference. The Board approved this moderate expense as an appropriate business expense.
- d. The Board's use of credit cards ensures that appropriate documentation is available to support the Board's expenses. The level of "detail" of such documentation may vary depending upon the nature of the expense incurred. A supporting hotel folio would be available to support a lodging charge. With reference to the expenses relating to the Annual Middlesex Retirement Spring Conferences, the expenses for same are thoroughly reviewed both prior to the commencement of the Conference and at the time of settling the charges with the conference hotel. The Board credit card was required to be used to settle the gross conference expenses at the Spring Conferences as a billing and reservation requirement of the conference hotel.
- e. Please see Board Response to Finding No. 12: Annual Retirement Conference.
- f. The Board is in full compliance with 840 CMR 2.00 which became effective June 6, 2003, and payments of Board expenses by third party vendors are now prohibited. However, during the period under review there was no such regulation, and upon disclosure to the Board, such payments were not prohibited by the Board's Education and Travel Policy.

6. Computers and Cell Phones:

The Board does not have formal policies governing the purchase of goods and services for Board members.

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

When reviewing expenses, PERAC auditors noticed that, in May of 1999, a multimedia PC was purchased for \$1,988 and shipped to a Board member's home.

Recommendation:

Payments for Board members' computers, internet access charges, and other electronic devices such as cell phones must be regulated in a policy guide and reviewed annually by Board members. Cell phones and office telephones should be included in a Telephone Policy Guide and bills reviewed monthly for personal telephone calls (expenses for personal calls should be reimbursed to the retirement system).

Sound business practices suggest that a physical inventory policy be initiated so that fixed asset tags can be attached to all inventory and proper records maintained and kept up-to-date.

Board Response:

The Board continues to review its IT plan, and internal controls regarding use of computers and cell phones. Board members are provided computers to communicate and to access information necessary to the performance of their fiduciary duties, including PERAC's website, investment manager performance reports, and other related information resources. As the Board has recently moved from the facilities at the Middlesex Superior Courthouse, and has been required to purchase fixtures and equipment, the Board is now in the process of creating a formal fixed asset inventory.

7. Professional Services – Documentation:

Proper documentation was not always provided for professional services performed. Services include, but are not limited to, the writing and publication of newsletters, website information, member benefit presentations, and lobbying expenses. For example, in one sample, the auditors had to assume an attorney was performing services because the billing statement contained a law office address. The billing statement only documented hours worked and rate per hour. In another sample, a \$25,000 prepayment in each year of the audit for a Public and Political Advocacy firm had no documentation supporting the nature of future services to be performed or a final itemization of services performed.

Recommendations:

As noted in audits performed by Certified Public Accountants, it is a good business practice to require that all vendors include a description of what was accomplished, as well as hours spent on each task and a rate per hour in bills submitted to the retirement system.

Board Response

The Board has found that, where practicable, all inclusive fixed fee agreements with vendors provide a savings to the system, and allows for predictable and planned expense appropriations. However, in view of PERAC's findings, the Board will ensure that proper and complete

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

documentation exists to support all bills for professional services, irrespective of whether the billings are hourly or otherwise.

8. Professional Services - Competitive Bidding:

The Middlesex Retirement System engaged the services of outside professionals in the areas of administration and lobbying services. Such services were secured without initiating a "Request for Proposal" or any other competitive bid process.

Recommendation:

The Middlesex Retirement System has the fiduciary responsibility to solicit competitive bids for administrative and lobbying services.

Board Response:

While a competitive process is specifically required by regulation for the Board's selection of vendors who provide investment related services, contracts for non-investment related retirement board services are otherwise specifically exempted from the provisions of G.L. c. 30B, the Uniform Procurement Act. Administration, lobbying, or other retirement related services may require unique qualifications, and /or involve a limited number of vendors or single source provider, which would render a competitive process impossible or not meaningful. However, despite the apparent statutory exemption, the Board does agree that where practicable, a competitive process is otherwise desirable in the retention of vendors.

9. Financial Operations/Standard Method of Accounting:

A review of the financial and accounting operations of the Middlesex Retirement System revealed that the System is using twenty-one (21) nonconforming ledger accounts that are not delineated in the official PERAC chart of accounts (examples include #2100 Accrued Payroll, #2300 Prepaid Appropriations, and #2500 Prepaid Member Deductions). The use of such accounts tends to convolute year-end adjusting and closing entries made during the three-year audit period.

Additionally, the Middlesex Retirement System presented two accounts on its Annual Statements submitted for the audit period entitled "Adjustment Account" and "Cancelled checks prior year" that are not permitted.

Recommendation:

PERAC regulation 840 CMR 4.00, which establishes the standard methods of accounting for Boards, is promulgated by PERAC pursuant to G.L. c. 7, § 50 and G.L. c. 32, § 21. Except as may otherwise be provided by the Commission, or by supplementary rules of a particular retirement Board approved by the Commission pursuant to 840 CMR 14.02, or by statute, 840 CMR 4.00 shall govern methods of accounting of all retirement boards. Regulation 840 CMR 4.01, Ledger Accounts, Cash Book and Journal, states that every Board shall establish, number,

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

and maintain ledger accounts in the form prescribed by the Commission and shall maintain a cash book, the format of which shall be approved by the Commission, and a journal of adjusting entries. PERAC regulation 840 CMR 14.02 provides that any retirement Board may request the Commissioner to approve rules applicable to that Board which supplement the provisions of the Commissioner's rules.

The Middlesex Retirement System must conform its accounting books and records to the standards set forth in the regulations and, if necessary, submit supplemental regulations to PERAC for review for any additional ledger accounts, accounting rules, or procedures.

Board Response:

The Board's response is incorporated with its response to Findings #11: Change in Fund Balance; and #12: Annual Retirement Conference, set forth below.

10. Appropriations:

A review of appropriation payments paid to the system revealed that payments made by some of the governmental units are not occurring on a timely basis. Payments to a regional retirement

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

system are to be made in accordance with funding schedule prescribed by G.L. c. 32, § 22 (7) (c) (ii) and PERAC regulation 840 CMR 25.26(5). These payments are due on July 1 and January 1, respectively.

Most of the units made the required payments by the end of the month in which they were due. However, there were, and still are, several units that from time to time deviate from the approved funding schedule and are late with payments and no accrued interest is assessed

In summary [all interest is compounded at eight percent to 2002 dollars], in 1998, approximately \$81,000 in interest is due from seventeen member units; in 1999, approximately \$73,000 in interest is due from twenty-three member units; in 2000, approximately \$75,000 in interest is due from nineteen member units; in 2001, approximately \$30,000 in interest is due from twenty-one member units (note: one month of interest was excluded because the funding schedule was not finalized) and in 2002, approximately \$18,000 in interest is due from six member units.

In addition, it was difficult to track payments to the general ledger because the system utilizes several nonconforming accounts (e.g., account #1499, Undeposited Funds and account #2300, Prepaid Appropriations).

Recommendation:

G.L. c. 32 and PERAC regulation 840 CMR 25.26(5) require that the pension appropriation payments must be paid when they are due. The governmental units not making timely payments should be identified. A policy to insure timely collection of all appropriations should be implemented. In addition, if payments continue to be late, the appropriate interest should be calculated and billed to the respective governmental units. G.L. c. 35, § 24, Interest Charged of Overdue Accounts says "If a time is fixed for payment of money due a county or a county retirement system, the debtor shall, if notified by the county treasurer at least thirty days before such time, pay interest thereon at the rate of eight per cent per annum from such fixed time until payment is made." In addition, G.L. c. 34B, § 19(6)(1) says "any provisions of said chapter 32, including provisions that apply to a county retirement systems, that are not inconsistent with the provisions of this chapter shall apply to a regional retirement system." Use of accounts #1499 and #2300 should cease. A cash account, appropriation account #4894, and receivable account #1398 are the ledger accounts prescribed by PERAC.

Board Response:

Notice of assessments due are timely made to the member units, in compliance with statute and with PERAC regulations. The Board's accounts receivable system records the amount billed, payments made, prepaid amounts and outstanding amounts. An aged receivable balance can be run off of the Board's system at any time. All member units are made aware of appropriation payment requirements, and the Board has systems in place to contact delinquent units immediately upon failure to pay when due. Unfortunately, short of filing suit against delinquent

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

units, the Board appears to lack enforcement authority to mandate timely payments of retirement assessments. Where member units have failed to respond, the Board, as a last resort and only after all other avenues have been exhausted, has filed successful actions in the Middlesex Superior Court against member units for failure to pay lawful assessments. By its express terms, G.L. c. 35, s. 24, the statute PERAC cites in support of interest being charged to delinquent member units, applies solely to county retirement systems. Accordingly, this statute appears to be of limited applicability and use, as the Middlesex Retirement System became a regional retirement system following the abolition of Middlesex County in 1997. While PERAC correctly cites G.L. c. 34B, s 19(6)(1) regarding the applicability of the provisions of Chapter 32 to regional retirement boards, the same is not true of the provisions of other statutes, including Chapter 35. Short of litigation, therefore, and the unseemliness which accompanies one public agency suing another, there is no legal recourse available to compel a member unit to pay an assessment on a timely basis. Furthermore, the member units are suffering through a period of financial hardship due to revenue reductions. Nevertheless, the Board will inform all of its unit members of PERAC's findings and opinion in this regard, and in the future will seek PERAC's assistance in collecting interest assessed to late payments.

11. Change of Fund Balances:

The change in fund balances for the audit period 1998 through 2000 could not be reconciled without using other established categories of receipts or disbursements that have been created by the system. Categories such as an 'adjustment account', 'cancelled checks prior year', and

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

'adjustment' are not identified to any ledger account. In addition, interfund transfers for the 1999 year-end did not agree with detailed supporting schedules.

Recommendation:

The changes in fund balances should be reviewed and supported with the appropriate accounting work papers in order to verify all year-end account balances and interfund transfers.

12. Annual Retirement Conference:

Cash received and disbursed for the Annual Middlesex Retirement Conference is not recorded in the Middlesex Retirement System's General Ledger or Annual Statement.

Recommendation:

The Middlesex Retirement System correctly maintains a separate checking account to administer the conference finances. The checking account balances must be added to the cash accounts in the General Ledger and reconciled monthly

Board Response:

- 9. Financial Operations/Standard Method of Accounting:
- 11. Change in Fund Balance:
- 12. Annual Retirement Conference:

The Board believes that these three findings commonly relate to the Board's method of accounting for unique transactions. The operations of a regional retirement system are more complex than those of municipal retirement systems. The Middlesex Retirement System is the largest multiple employer regional retirement system in Commonwealth, and the Board has learned that certain transactions do not fit well into PERAC's accounting structure. The Board had established these separate accounts to strengthen its internal controls. The Board is fully knowledgeable of all transactions which are posted to the accounts cited. PERAC's examination noted that the conference account was correctly maintained in a separate checking account. PERAC did not find that the accounts in question were erroneous, but rather that the use of non-standard accounts tended to convolute year-end adjusting and closing entries. It is the Board's experience, however, that these accounts do not convolute the process, but allow appropriate accounting and controls.

Based on beneficial discussions with PERAC personnel during the audit, the Board has agreed to meet with all necessary parties to resolve these accounting issues. The Board expects to change some of its accounting methods and expects that PERAC will establish new accounting procedures for transactions such as the conference accounts. The Board hopes that this can be accomplished before submission of the 2003 annual report.

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

The Board respectfully requests that PERAC work together with the Board to establish accounting procedures for the ownership of the Board's office building in Billerica, as 2003 was the first full year of ownership, and the activity must be reported as part of the 2003 annual report.

13. Membership Contributions:

- a. Based on inspection and inquiry, it was determined that the Middlesex Retirement Board lacks a uniform method of correctly reporting monthly membership payroll. The Middlesex Retirement Board administers sixty-seven (67) governmental units. 24 of the 67 units (36%) did not report "Other Earnings" which makes it impossible to determine if "Regular Earnings" is exclusive of earnings not subject to pension deductions, such as overtime or police detail pay.
- b. Detailed payroll information relating to "Other Earnings" (e.g., police detail pay versus Quinn Bill Pay) is not required to be submitted to the Middlesex Retirement System for review by their payroll personnel. PERAC auditors could not verify that regular earnings subject to pension deductions included only pensionable earnings and not non-pensionable categories, such as overtime or police work detail pay. For example, in the December 2000 and January 2001 payrolls for the Town of Billerica, a category of earnings called "Other Earnings" (which did not include overtime) was added to regular earnings. Pension deductions were taken from these two earnings types combined. "Other Earnings" for December 2000 represented 28% of the total pensionable earnings of \$1,728,622. In addition, the Billerica school system's pensionable earnings included lump sum earnings payments as well as regular earnings. PERAC auditors were not able to verify whether "Other Earnings" were actually eligible for pension deductions due to the fact that detailed payroll records are not being maintained at the Middlesex Retirement System.
- c. Middlesex Retirement System does not have a standard procedure for ensuring that pension deductions are based solely on regular compensation as defined in G.L. c. 32. PERAC auditors reviewed four consecutive months of fluctuating earnings figures for an employee in the town of Ashland who had disability and life insurance reimbursements added to regular earnings. This issue occurred over a three-year period, and was just recently discovered by Middlesex Retirement System payroll personnel. As a result, the employee will be receiving a refund of the excess pension deductions withheld on the disability and life insurance payments.
- d. When the Treasurers of the 67 governmental units submit payroll data to the Middlesex Regional Retirement Board, the Treasurers must certify, in writing, that the employee payroll data remitted to the retirement system is in accordance with the provisions of G.L. c. 32.

PERAC auditors determined that the Treasurers in 29 of the 67 (43%) reporting units that make up the Middlesex Retirement System are not certifying that the monthly employee payroll data is accurate and correct.

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

Recommendations:

- a. Reporting of member contributions should be made on a prescribed form for all member units. The prescribed form should be consistent with G.L. c. 32, § 22(1)(h) and include the following member information: 1) name; 2) social security number or employee number; 3) compensation by type: total, regular, overtime, and 2% excess; 4) contribution amount; 5) contribution rate; and 6) any other member information deemed appropriate.
- b. When governmental unit Treasurers submit salary information to the Middlesex Retirement System, the Treasurers must break out overtime pay and stipulate the specific type of pay other than regular compensation (i.e., Other Earnings) from which pension deductions are being withheld.
- c. The Middlesex Retirement System should develop a standardized reporting procedure for all 67 units to ensure that non-regular pensionable earnings are documented and reviewed for compliance with G.L. c. 32. In addition, the System should routinely investigate large and consistent fluctuations in regular earnings.
- d. The Middlesex Retirement System must establish a program to ensure that unit Treasurers certify, in writing, that employee payroll data is true and correct.

Board Response:

The Board conducts annual classes for the payroll staffs of the member units, and updates issues involving regular compensation semi-annually with the Middlesex Treasurers' Retirement Advisory Council. Classification of payments to employees which represent regular compensation is a constantly evolving area, and, as PERAC is aware, subject to administrative and judicial challenges and reversals. The Board's ability to demand payroll compliance of its 67 member units is limited, and compliance by the member units has been voluntary. The Board and its staff have consulted with the State Teachers' Retirement System in an effort to adapt that system's computerized payroll data collection system to the Board's use. Payroll accounting issues for the multi-employer county and regional retirement systems are commonplace, as member units possess varying degrees of staff experience and computer capabilities. We respectfully request that PERAC consult with all county and regional retirement boards on membership contribution issues and adopt regulatory changes, or petition, if necessary, for statutory changes to address this issue.

- a. As noted above, while the Board can suggest, it has no authority to adopt and to enforce a uniform method of reporting upon all of its member units. Nevertheless, the Board will continue to make concerted efforts to prescribe a form for use by all member units.
- b. The Board's staff is knowledgeable and experienced in the distinctions regarding statutory and regulatory classifications of various types of compensation and their reporting/recording. In

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

the instant case of the Town of Billerica, and in numerous other scenarios, our efforts are ongoing in clarifying inadequate and inaccurate member unit payroll reporting on a monthly payroll by payroll basis.

c. As implied by the above responses, the Board's staff executes an ongoing effort to correct payroll data errors after submission. In the absence of statutory and regulatory guidance, the Board lacks authority to demand uniformity and compliance, and respectfully requests PERAC's assistance in this regard. In the specific case involving the Town of Ashland, technical advisories on disability and life insurance reimbursements were received during the three year period under review, which required corrections. Such corrections and refunds of excess pension deductions are anticipated to be necessary as well in the area of regular compensation for the personal use of a town vehicle, an area in which PERAC and the administrative review agencies are in disagreement. This is an area which is never stagnant, but constantly changing. The Board's staff is diligent in ensuring that appropriate deductions, as well as required refunds, are timely made.

d. As noted, the majority of unit Treasurers do certify in writing that the payroll data submitted is in accordance with the provisions of Chapter 32. However, the absence of a uniform and enforceable method of reporting, coupled with the lack of understanding of some Treasurers as to their statutory responsibility in this regard deters the Board's efforts to ensure certification by the unit Treasurers. As stated above, the Board would seek to work together with PERAC in resolving these issues which are common to county and regional retirement boards.

14. Refunds:

A sample of the refunds selected for review revealed that a Board Member or the Executive Secretary did not sign all of the "Applications for Withdrawal of Accumulated Total Deductions" forms as required. In two percent of the sampled applications, the signatures of Department heads were also missing.

Recommendation:

G.L. c. 32, § 10(4) provides, in pertinent part, that a member shall be paid the amount of their total accumulated deductions as provided for in subdivision (1) of section eleven upon written request therefore on a prescribed form filed with the Board on or after the date of termination of service, except as provided in section eleven or section fifteen. Here the Board has not completed the prescribed form as set forth in G.L. c. 32. The Middlesex Retirement System must institute an internal audit procedure that ensures the accuracy and completeness of all refund forms submitted in accordance with the statutory authority.

Board Response:

The Board strives to ensure that refund requests are appropriately supported and executed by the necessary parties. Under the statutory provisions, the Board processes on average over 900

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

refunds annually, and over 2700 for the period under review. The Board believes that the representative sampling which revealed two (2) refund requests unsigned by Department Heads is not reflective of the Board's stringent internal audit procedures. Nevertheless, the Board shall take steps to further ensure compliance and accuracy.

15. Transfers:

A review of transfers that occurred during the audit period disclosed that 5% of the files that were requested could not be located.

Recommendation:

PERAC regulation 840 CMR 6.04(1) requires that each retirement board designate a person to serve as custodian of all records which the retirement board holds. Further, in PERAC regulation 840 CMR 6.04(2)(a) and (b), the custodian is required to maintain control over all of the records held by the board and must take all reasonable precautions to protect the records from fire, theft, flood, natural disaster, unauthorized removal, or other security hazard. The Middlesex Retirement System must implement a system that ensures the safety and security of all the records under its control including, but not limited to, having duplicate copies of records on electronic media stored at a secure off-site location.

Board Response:

Unfortunately, PERAC initiated its review on January 6, 2003, within three (3) weeks of the relocation of the records and operation of the Middlesex Retirement System from the Middlesex Superior Courthouse in Cambridge to the Board's present offices in Billerica. A substantial amount of the documents requested for review had yet to be unpacked and filed. That only 5% of files requested for review could not be located attests to the Board's cooperative efforts in this regard. The Board has subsequently installed a centralized computerized filing system which tracks all members' files.

16. Affidavits:

The Middlesex Retirement System utilizes the services of Pension Benefit Information Services to analyze retired member mortality status. Individuals identified by the service as deceased are formally investigated by the system in which a death benefit certificate will be obtained along with any un-cashed benefit check. Although this on-line service is beneficial to the Retirement System, it does not fulfill additional requirements mandated by PERAC 840 CMR 15.01 (1) such as:

- a. A documented affidavit with the name of the member or beneficiary
- b. The current address of the member or beneficiary
- c. A statement certifying that the member or beneficiary is currently living
- d. A statement describing the beneficiary's current marital status where marital status is relevant to continued receipt of benefits

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

- e. A statement describing the beneficiary's current dependency status where dependency is relevant to continued receipt of benefits, and
- f. Such additional information as the Board may require determining whether the member or beneficiary is entitled to continued receipt of benefits

Recommendation:

The Middlesex Retirement System should develop a procedure to meet the additional requirements of PERAC 840 CMR 15.01 (1).

Board Response:

Historically, and with PERAC's prior approval, the Middlesex Retirement System has utilized the services of an outside vendor, Pension Benefits Information Services (PBIS), in order to meet the requirements of 840 CMR 15.01. It was the Board's understanding that PERAC expressly qualified PBIS and authorized use of its services in the lieu of obtaining affidavits. PERAC has never withdrawn that qualification. In view of PERAC's recent determination that the service does not fulfill requirements mandated by 840 CMR 15.01(1), the Board has reconsidered the issue, has now sent affidavits on prescribed forms to all benefit recipients.

17. Executive Sessions:

Executive Sessions minutes are included in the regular Board Minutes.

Recommendation:

Executive Session minutes should not be included in the normal minutes maintained by the Retirement Board. The Board must prepare a separate set of minutes for Executive Sessions. The purpose of Executive Sessions is to have a record of items that are private and personal in nature (disabilities, personnel matters, etc.) and, as such, must be kept separate from the month-to-month regular meeting minutes maintained by the Retirement Board.

Board Response:

The Board has taken steps to ensure that those items which are required to be discussed in executive session are documented in separate minute books. The Board reviews all prepared minutes prior to adoption to further ensure that unintended disclosures of personal or confidential data are prevented.

18. Middlesex Retirement System Minutes:

When Board minutes were reviewed, some important decisions lacked sufficient detail to support major decisions. The following are two examples: Page 1308 of the September 12, 2002 Board minutes reference it was 'VOTED TO TERMINATE THE RETIREMENT ALLOWANCE OF [name withheld by PERAC], EFFECTIVE SEPTEMBER 30, 2002'. Or, on page 1309, Board minutes reference a check was presented 'IN THE AMOUNT OF \$9,500 REPRESENTING THE THIRD PARTY SETTLEMENT IN THE CASE OF [name withheld by

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

PERAC]. The minutes do not suggest to the reader why the allowance was terminated or why a third party settlement of \$9,500 was given. References to these comments do not exist in the prior 30 pages of the September 12, 2002 Board minutes or in the prior month's minutes leading up to this September 12, 2002 sample.

Recommendation:

PERAC auditors suggest more descriptive detail when documenting Board actions.

Board Response:

Both the Open Meeting Law and the Public Records Law require that the Board maintain accurate minutes of all Board meetings. The minimum legal requirements are that Board minutes must contain: (1) the date, time, and place of the meeting, (2) the identity of the members present or absent, and (3) all "action taken" by the Board. "Action taken" has been determined by the Middlesex District Attorney's Office to include not only votes and other formal decisions made at a Board meeting, but also to include discussion or consideration of issues for which no vote is taken nor final determination is made. The District Attorney has indicated that the Board's minutes are meant to serve as a record of what was done at a Board meeting, and not all that was said at the Board meeting. The Board is of the opinion that its minutes exceed the minimum legal requirements. However, in view of PERAC's concerns, the Board will review the future content of its minutes. The Board respectfully notes that PERAC Regulation 840 CMR 6:12: Records of Retirement Board Meetings contains no requirement for "further descriptive detail," as set forth in this finding.

19. Financial Reporting:

The Middlesex Retirement Board members do not review a copy of the trial balance or the reconciliations of cash accounts at monthly meetings.

Recommendation:

The Middlesex Retirement Board members should review and initial a copy of the trial balance and cash account reconciliations at monthly Board meetings. PERAC regulation 840 CMR 25.31 (6) states that the Board must review the trial balance of the system on a monthly basis.

Board Response:

At each Board meeting, mostly twice a month, the Board receives and reviews a trial balance, a statement of cash accounts, a prediction of monthly cash requirements, a status report on market values of all portfolio assets, a recapitulation of fees paid to date for all financial vendors, a statement of YTD receipts of every nature, and a status report on the FY operational budget. These documents are prepared by the Board's staff and tendered to each Board member at the commencement of the meeting. In so doing, the Board has satisfied the requirements of PERAC Regulation 840 CMR 25.31(6). The Board will also ensure that such action is recorded in the Board minutes.

Middlesex Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

Subsequent events:

On June 11, 2003, the Commission, pursuant to the provisions of G.L. c. 32, § 23(4) and the provisions of 840 CMR 27.01, commenced an investigation into the relationship between the Middlesex Retirement Board (MRB) and Cambridge Financial Management, Inc. (CFM). CFM was a currency overlay manager for MRB beginning in August 1999. Orders have been issued as part of that investigation to a number of parties. At this time, the investigation has not been concluded; therefore, no findings pertaining to that subject matter are incorporated herein.

Board Response:

In May of 2003, the Board timely notified PERAC and other state and federal agencies of certain circumstances involving Cambridge Financial Management (CFM), which triggered PERAC's fact finding investigation. The Board has also commenced litigation in the Middlesex Superior Court based upon these circumstances. The Board has cooperated with PERAC during this investigation, and has pledged its continued cooperation throughout the investigation.

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Middlesex Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2000	1999	1998
Cash	\$17,434,323	\$23,099,041	\$13,637,861
Short Term Investments	0	0	0
Fixed Income Securities (at book value)	133,119,560	118,622,578	128,603,136
Equities	183,112,115	176,071,466	131,469,541
Pooled Domestic Equity Funds	34,270,683	40,083,507	26,942,816
Pooled International Equity Funds	83,179,346	97,626,332	93,869,478
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	10,568,432	7,880,989	7,633,876
Pooled International Fixed Income Funds	32,370,397	32,206,975	51,388,262
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	40,957,046	45,835,574	21,783,739
Pooled Real Estate Funds	45,425,311	33,338,692	36,092,108
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
Interest Due and Accrued	2,155,169	2,017,649	2,060,216
Accounts Receivable	13,023,674	8,022,578	13,682,849
Accounts Payable	(21,272,163)	(12,118,211)	(18,366,773)
Prepaid M-U Payment & Redeposit	(220)	0	0
Prepaid Appropriations	(5,847,307)	(2,406,483)	0
Prepaid Member Deductions	(9,657)	(17,218)	0
TOTAL	<u>\$568,486,709</u>	<u>\$570,263,467</u>	<u>\$508,797,109</u>
FUND BALANCES			
Annuity Savings Fund	\$186,860,582	\$175,017,845	\$163,208,043
Annuity Reserve Fund	57,272,053	54,267,226	51,160,662
Pension Fund	39,158,078	53,790,969	70,952,692
Military Service Fund	61,107	60,837	66,965
Expense Fund	0	0	0
Pension Reserve Fund	285,134,889	287,126,592	223,408,747
TOTAL	<u>\$568,486,709</u>	<u>\$570,263,467</u>	<u>\$508,797,109</u>

Middlesex Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1998)	\$170,197,240	\$49,194,116	\$79,858,003	\$67,856	\$0	\$172,930,804	\$472,248,018
Receipts	22,208,487	1,479,365	33,614,169	4,314	4,627,126	50,353,717	112,287,176
Interfund Transfers	(6,523,775)	6,409,885	(5,131)	(5,205)		124,226	0
Disbursements	<u>(22,673,908)</u>	<u>(5,922,703)</u>	<u>(42,514,349)</u>	<u>0</u>	<u>(4,627,126)</u>	<u>0</u>	<u>(75,738,086)</u>
Ending Balance (1998)	163,208,043	51,160,662	70,952,692	66,965	0	223,408,747	508,797,109
Receipts	23,902,642	1,552,278	26,052,331	4,518	5,243,042	63,705,499	120,460,310
Interfund Transfers	(7,975,917)	7,988,268	(15,774)	(8,923)		12,345	(0)
Disbursements	<u>(4,116,924)</u>	<u>(6,433,982)</u>	<u>(43,198,280)</u>	<u>(1,722)</u>	<u>(5,243,042)</u>	<u>0</u>	<u>(58,993,951)</u>
Ending Balance (1999)	175,017,845	54,267,226	53,790,969	60,837	0	287,126,592	570,263,467
Receipts	25,726,703	1,639,644	31,817,604	2,952	5,860,382	(2,056,961)	62,990,326
Interfund Transfers	(8,236,929)	8,188,634	(14,281)	(2,682)	0	65,258	(0)
Disbursements	<u>(5,647,037)</u>	<u>(6,823,451)</u>	<u>(46,436,214)</u>	<u>0</u>	<u>(5,860,382)</u>	<u>0</u>	<u>(64,767,084)</u>
Ending Balance (2000)	<u>\$186,860,582</u>	<u>\$57,272,053</u>	<u>\$39,158,078</u>	<u>\$61,107</u>	<u>\$0</u>	<u>\$285,134,889</u>	<u>\$568,486,709</u>

Middlesex Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2000	1999	1998
Annuity Savings Fund:			
Members Deductions	\$20,154,662	\$18,510,625	\$16,987,140
Transfers from other Systems	1,334,524	1,275,778	1,118,823
Member Make Up Payments and Redeposits	686,162	628,995	579,187
Investment Income Credited to Member Accounts	<u>3,551,355</u>	<u>3,487,244</u>	<u>3,523,338</u>
Sub Total	<u>25,726,703</u>	<u>23,902,642</u>	<u>22,208,487</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>1,639,644</u>	<u>1,552,278</u>	<u>1,479,365</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	1,037,467	982,808	957,191
Received from Commonwealth for COLA and Survivor Benefits	3,680,790	3,816,283	0
Adjustment Account	100	798	1,715
Pension Fund Appropriation	<u>27,099,247</u>	<u>21,252,442</u>	<u>32,655,263</u>
Sub Total	<u>31,817,604</u>	<u>26,052,331</u>	<u>33,614,169</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	1,722	3,197	2,966
Investment Income Credited Military Service Fund	<u>1,230</u>	<u>1,321</u>	<u>1,347</u>
Sub Total	<u>2,952</u>	<u>4,518</u>	<u>4,314</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>5,860,382</u>	<u>5,243,042</u>	<u>4,627,126</u>
Sub Total	<u>5,860,382</u>	<u>5,243,042</u>	<u>4,627,126</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	132,170	136,163	134,226
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	99,046	98,649	76,319
Excess Investment Income	<u>(2,288,177)</u>	<u>63,470,687</u>	<u>50,143,172</u>
Sub Total	<u>(2,056,961)</u>	<u>63,705,499</u>	<u>50,353,717</u>
TOTAL RECEIPTS	<u>\$62,990,326</u>	<u>\$120,460,310</u>	<u>\$112,287,176</u>

Middlesex Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

FOR THE PERIOD ENDING DECEMBER 31,			
Annuity Savings Fund:	2000	1999	1998
Refunds to Members	\$2,837,722	\$2,323,664	\$2,324,019
Transfers to other Systems	<u>2,809,314</u>	<u>1,793,260</u>	<u>20,349,889</u>
Sub Total	<u>5,647,037</u>	<u>4,116,924</u>	<u>22,673,908</u>
Annuity Reserve Fund:			
Annuities Paid	6,626,248	6,224,515	5,775,635
Option B Refunds	<u>197,203</u>	<u>209,467</u>	<u>147,069</u>
Sub Total	<u>6,823,451</u>	<u>6,433,982</u>	<u>5,922,703</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	31,695,314	29,487,123	27,547,942
Survivorship Payments	2,369,092	2,234,640	2,105,688
Ordinary Disability Payments	1,053,360	1,034,514	1,025,777
Accidental Disability Payments	7,339,433	7,026,732	6,683,850
Accidental Death Payments	1,883,313	1,788,057	1,703,121
Section 101 Benefits	424,606	411,193	389,753
3 (8) (c) Reimbursements to Other Systems	746,965	663,054	2,389,908
State Reimbursable COLA's Paid	924,132	524,244	668,309
Chapter 389 Beneficiary Increase Paid	0	0	<u>0</u>
Adjustment	<u>0</u>	28,723	<u>0</u>
Sub Total	<u>46,436,214</u>	<u>43,198,280</u>	<u>42,514,349</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>1,722</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	13,500	7,875	4,500
Salaries	832,062	745,590	716,544
Legal Expenses	81,257	70,266	58,442
Medical Expenses	56,195	329	228
Travel Expenses	79,748	47,776	41,110
Administrative Expenses	453,691	401,735	394,585
Furniture and Equipment	13,038	16,952	12,710
Miscellaneous Expenses	6,216	0	0
Management Fees	3,929,388	3,641,517	3,131,989
Custodial Fees	255,289	171,002	147,018
Consultant Fees	<u>140,000</u>	<u>140,000</u>	<u>120,000</u>
Sub Total	<u>5,860,382</u>	<u>5,243,042</u>	<u>4,627,126</u>
TOTAL DISBURSEMENTS	<u>\$64,767,084</u>	<u>\$58,993,951</u>	<u>\$75,738,086</u>

Middlesex Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2000	1999	1998
Investment Income Received From:			
Cash	\$1,137,570	\$1,093,941	\$1,067,433
Short Term Investments	67,679	43,711	0
Fixed Income	8,608,742	9,049,653	8,711,694
Equities	1,801,143	1,526,584	1,335,698
Pooled or Mutual Funds	7,974,146	8,002,310	10,790,617
Commission Recapture	47,264	61,374	36,094
Miscellaneous	<u>114,872</u>	<u>96,245</u>	<u>114,529</u>
TOTAL INVESTMENT INCOME	<u>19,751,415</u>	<u>19,873,818</u>	<u>22,056,063</u>
Plus:			
Increase in Amortization of Fixed Income Securities	49,178	2,230	259,795
Realized Gains	39,293,921	34,085,369	12,993,793
Unrealized Gains	69,831,579	76,893,566	44,178,685
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>2,155,169</u>	<u>2,017,649</u>	<u>2,060,216</u>
Sub Total	<u>111,329,847</u>	<u>112,998,813</u>	<u>59,492,489</u>
Less:			
Decrease in Amortization of Fixed Income Securities	(8,539)	(7,335)	(567,634)
Paid Accrued Interest on Fixed Income Securities	(563,291)	(829,700)	(929,811)
Realized Loss	(42,088,243)	(20,337,094)	(8,739,245)
Unrealized Loss	(77,639,106)	(35,883,714)	(9,479,016)
Custodial Fees Paid	0	0	0
Consultant Fees Paid	0	0	0
Management Fees Paid	0	0	0
Board Member Stipend	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(2,017,649)</u>	<u>(2,060,216)</u>	<u>(2,058,499)</u>
Sub Total	<u>(122,316,828)</u>	<u>(59,118,058)</u>	<u>(21,774,205)</u>
NET INVESTMENT INCOME	<u>8,764,434</u>	<u>73,754,572</u>	<u>59,774,347</u>
Income Required:			
Annuity Savings Fund	3,551,355	3,487,244	3,523,338
Annuity Reserve Fund	1,639,644	1,552,278	1,479,365
Military Service Fund	5,860,382	5,243,042	4,627,126
Expense Fund	<u>1,230</u>	<u>1,321</u>	<u>1,347</u>
TOTAL INCOME REQUIRED	<u>11,052,612</u>	<u>10,283,885</u>	<u>9,631,175</u>
Net Investment Income	<u>8,764,434</u>	<u>73,754,572</u>	<u>59,774,347</u>
Less: Total Income Required	<u>11,052,612</u>	<u>10,283,885</u>	<u>9,631,175</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$2,288,178)</u>	<u>\$63,470,687</u>	<u>\$50,143,172</u>

Middlesex Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$17,434,323	\$17,434,323	3.00%	100
Short Term	0	0	0.00%	100
Fixed Income	133,119,560	133,119,560	22.93%	40 - 80
Equities	183,112,115	183,112,115	31.55%	40
Pooled Short Term Funds	0	0	0.00%	
Pooled Domestic Equity Funds	34,270,683	34,270,683	5.90%	
Pooled International Equity Funds	83,179,346	83,179,346	14.33%	
Pooled Global Equity Funds	0	0	0.00%	
Pooled Domestic Fixed Income Funds	10,568,432	10,568,432	1.82%	
Pooled International Fixed Income Funds	32,370,397	32,370,397	5.58%	
Pooled Global Fixed Income Funds	0	0	0.00%	
Pooled Alternative Investment Funds	40,957,046	40,957,046	7.06%	
Pooled Real Estate Funds	45,425,311	45,425,311	7.83%	
Pooled Domestic Balanced Funds	0	0	0.00%	
Pooled International Balanced Funds	0	0	0.00%	
PRIT Cash Fund	0	0	0.00%	
PRIT Core Fund	<u>0</u>	<u>0</u>	<u>0.00%</u>	100
GRAND TOTALS	<u>\$580,437,213</u>	<u>\$580,437,213</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2000**, the rate of return for the investments of the **Middlesex** Retirement System was 0.24%. For the five-year period ending December 31, **2000**, the rate of return for the investments of the **Middlesex** Retirement System averaged 10.04%. For the fifteen-year period ending December 31, **2000**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Middlesex** Retirement System was 11.34%.

Middlesex Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

The **Middlesex** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

August 13, 2002

Notwithstanding the provisions of the Public Employee Retirement Administration Commission Regulations, the Middlesex Retirement Board may invest funds of the Middlesex Retirement System (the "System") with the real estate investment fund known as Realty Associates Fund VI Corporation (the "Fund"), and while the assets of the System are so invested, (i) the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the system's interest in the Fund but not any of the underlying assets of the Fund or the operating partnership in which the Fund is invested (the "OP"); provided that, at all times, the Fund and the OP qualify as "venture capital operating companies" or "real estate operating companies" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder, or the assets of the Fund and the OP otherwise would not be treated as plan assets under ERISA; and (ii) the limitation set forth in 840 CMR 19.01(6) shall be deemed satisfied if no single investment of the OP, valued at cost, exceeds 20% of the capital commitments to the Fund and the OP.

April 18, 2001

1. Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Middlesex County Retirement Board request as it applies to 840 CMR 17.04(1)(c) is approved.
2. 2. Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Middlesex County request as it applies to 840 CMR 17.04(6).
3. Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Middlesex County Retirement Board request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.
4. Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (shortsales); 21.01(3)(a) permits the use of

Middlesex Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

4. forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

“Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for nonspeculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”

PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

Please be advised that this Supplemental Regulation as it exempts the Middlesex County Retirement Board from PERAC Regulations, only does so in relation to the INVESCO Funds that are the subject of the Supplementary Regulation. In all other circumstances, these Regulations apply to the Middlesex County Retirement Board.

The Supplementary Regulations approved herein are applicable only to the Middlesex County Retirement System’s investment in the INVESCO Venture Partnership Fund, the INVESCO U.S. Buyout Partnership Fund, and the INVESCO Non-U.S. Partnership Fund. Exemption from the regulations pertaining to prohibited investments is limited to the purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limiting currency risk of the funds where a commitment to a fund was made in a non-U.S. currency.

March 23, 2001

16.08 As authorized under the terms of the Middlesex County Retirement System’s contract with Old Mutual Investment Advisors (OMIA), the System’s international equity mandate previously managed by OMIA out of London has been transferred to Acadian Asset Management, a Boston based investment manager that is a wholly-owned corporate subsidiary of OMIA. The transition involves no essential change in investment strategy.

October 12, 2000

19.01(8) The Middlesex County Retirement Board may increase its allocation in alternative investments from 5% to 7%. The Board has had relationships with several investment managers in this asset class, and overall returns have been favorable. The Board seeks to maintain its investments in this asset class in light of the successful results to date and the expectation that a number of the partnerships in which it is invested will be returning capital to the limited partners in the coming years

Middlesex Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Middlesex** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Middlesex Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Middlesex Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Middlesex** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

January 30, 2002

Call Firefighters Call Firefighters of a member unit within the Middlesex Retirement System are not entitled to membership in the Middlesex Retirement System by virtue of their Call Fire Fighter employment. Upon establishing membership in the Middlesex Retirement System, a member who has rendered prior service as a call fire fighter will be credited with service to be determined by the Board, subject to the applicable provisions of G.L. c. 32, ss. 4(2)(b) and 4(2)(b½). August 18, 2000 Employment

Middlesex Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

Service Rendered Under Federal Grants Employment Service Rendered Under Federal Grants After further review of the relevant provisions of G.L. c. 32, further review of recent administrative and judicial decisions rendered regarding membership and creditable service, and further review of prior determinations and promulgations of the Public Employee Retirement Administration Commission relative to recovery of pension costs from federal grants, the Middlesex Retirement Board hereby adopts the following supplemental regulations.

1. Employees of a member unit of the Middlesex Retirement System whose compensation is paid through a federal grant (e.g., CETA, EAP, Title I, LEAA,) and whose employment terms and conditions would otherwise qualify them for membership, are eligible for membership in the Middlesex Retirement System.
2. Active members of the Middlesex Retirement System who previously rendered service in a member unit but were excluded or omitted from membership in the Middlesex Retirement System due solely to the federal source of payment of the employees' compensation, and whose employment terms and conditions would otherwise qualify them for membership in the Middlesex Retirement System, are entitled to membership in the system retroactive to the date of such exclusion or omission, upon full and complete payment into the retirement system of the appropriate retirement contribution. Such members are entitled to the benefits of membership which were in effect at the time of such exclusion or omission.
3. Active members of the Middlesex Retirement System who have rendered prior employment service in a non-member unit and whose compensation for such service was paid through a federal grant, are eligible to purchase creditable service for such prior employment service, if such prior employment service, if rendered in a member unit, would have been eligible to be purchased.

October 21, 1999:

Motor Vehicle Use. A member who is provided a motor vehicle for personal use by the employer as a necessary and usual requirement of the member's employment shall be credited annually as regular compensation an amount which shall be determined by adopting the taxable value of same as set by the member's employer, and as appearing on the member's W-2 form. Said regular compensation shall be approved upon payment of appropriate retirement contribution by the member. A member who receives a standard and regularly paid allowance from the employer for use of the member's personal motor vehicle in the course of performing the member's duties, as appearing on the member's W-2 form, shall be credited annually with the additional regular compensation in the amount of said allowance upon payment of appropriate retirement contribution by the member. Varying, sporadic or irregular reimbursement by the employer to a member for use of the member's motor vehicle shall not be considered regular compensation.

August 12, 1996 Membership:

Any employee rendering services in excess of ninety (90) working days shall be a member of the retirement system.

Middlesex Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Chairman who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Chairman, Chief Executive:	James E. Fahey	Term Expires:	12/31/08
Vice Chairman, Advisory Council:	Brian P. Curtin	Term Expires:	12/31/03
Elected Member:	Lawrence P. Driscoll	Term Expires:	12/31/05
Elected Member:	John H. Burke, Sr.	Term Expires:	12/31/04
Appointed Member:	James M. Gookin	Term Expires:	12/31/04

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$30,000,000 Fiduciary Liability
Elected Member:)	\$1,000,000 Employee Dishonesty
Appointed Member:)	
Staff Employee:)	

Middlesex Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Buck Consultants** as of **January 1, 2002**.

The actuarial liability for active members was	\$501,690,800
The actuarial liability for retired members was	519,137,378
The total actuarial liability was	1,020,828,178
System assets as of that date were	599,699,143
The unfunded actuarial liability was	<u>\$421,129,035</u>
The ratio of system's assets to total actuarial liability was	58.7%

The normal cost for employees on that date was 7.89% of payroll

The normal cost for the employer was 3.83% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum
Rate of Salary Increase: 4.75% per annum *after* 8 years

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2000

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2002	\$599,699,143	\$1,020,828,178	\$421,129,035	58.7%	\$280,740,439	150.01%
1/1/2000	\$570,263,467	\$905,280,472	\$335,017,005	63.0%	\$253,228,818	132.30%
1/1/1998	\$476,708,969	\$763,093,878	\$286,384,909	62.5%	\$215,380,186	132.97%
1/1/1996	\$379,662,591	\$628,086,627	\$248,424,036	60.4%	\$218,345,024	113.78%
1/1/1993	\$264,287,164	\$499,503,339	\$235,216,175	52.9%	\$182,151,809	129.13%

Middlesex Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Superannuation	236	176	365	120	136	126	187	162	181	156
Ordinary Disability	11	7	3	6	4	7	6	2	3	1
Accidental Disability	39	13	10	13	7	15	9	5	6	4
Total Retirements	286	196	378	139	147	148	202	169	190	161
Total Retirees, Beneficiaries and Survivors	4,001	4,028	4,299	4,277	4,281	4,298	4,474	4,503	4,531	4,501
Total Active Members	6,239	6,054	6,043	6,052	6,462	6,375	6,123	6,328	6,601	7,095
Pension Payments										
Superannuation	\$15,394,828	\$16,491,758	\$20,110,941	\$22,295,678	\$23,436,163	\$24,352,288	\$26,047,807	\$27,547,942	\$29,487,123	\$31,695,314
Survivor/Beneficiary Payments	961,775	1,038,545	1,016,303	1,068,940	1,033,934	1,003,536	1,052,551	1,025,777	2,234,640	2,369,092
Ordinary Disability	1,563,884	1,698,519	1,771,500	1,853,944	1,929,802	1,952,061	2,063,213	2,105,688	1,034,514	1,053,360
Accidental Disability	5,131,776	5,422,447	5,582,698	5,971,273	5,947,568	6,281,950	6,445,240	6,683,850	7,026,732	7,339,433
Other	3,141,575	4,291,102	4,255,933	4,638,129	1,791,203	1,991,444	2,041,616	2,092,874	2,199,250	2,307,918
Total Payments for Year	\$26,193,838	\$28,942,371	\$32,737,375	\$35,827,964	\$34,138,670	\$35,581,279	\$37,650,427	\$39,456,131	\$41,982,259	\$44,765,117